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ABSTRACT

The social security system in the United States is becoming increasingly unstable, as the amount of benefits paid to an ever larger number of retirees grows and the number of younger workers paying taxes to the system decreases. The problem will become especially acute in the years 2011 and after, as the members of the "baby boom" generation begin to retire. There are four ways to restore the solvency of the system. The first is to regard current eligibility rules and benefit levels that keep pace with changes in the cost of living as a commitment that must be met; the problem with this decision is how to pay for these benefits. A second option in resolving the nation's retirement dilemma is to reduce the level of benefits. Although this proposal meets with resistance, it may meet with less resistance if changes do not affect current recipients. A third choice is to change the eligibility rules so that fewer people qualify for benefits--or qualify for fewer years; this option would require far-reaching changes in attitudes to remove the incentives for older workers to retire. The fourth suggestion is that social security be made a voluntary system. Critics of this suggestion point out that if it were voluntary, the number of workers who wished to participate in the system might not be sufficient to make it work. Whichever option is selected, some choice must be made about how to provide for the needs of the large group of elderly Americans without imposing an unacceptable burden on younger workers. (KC)

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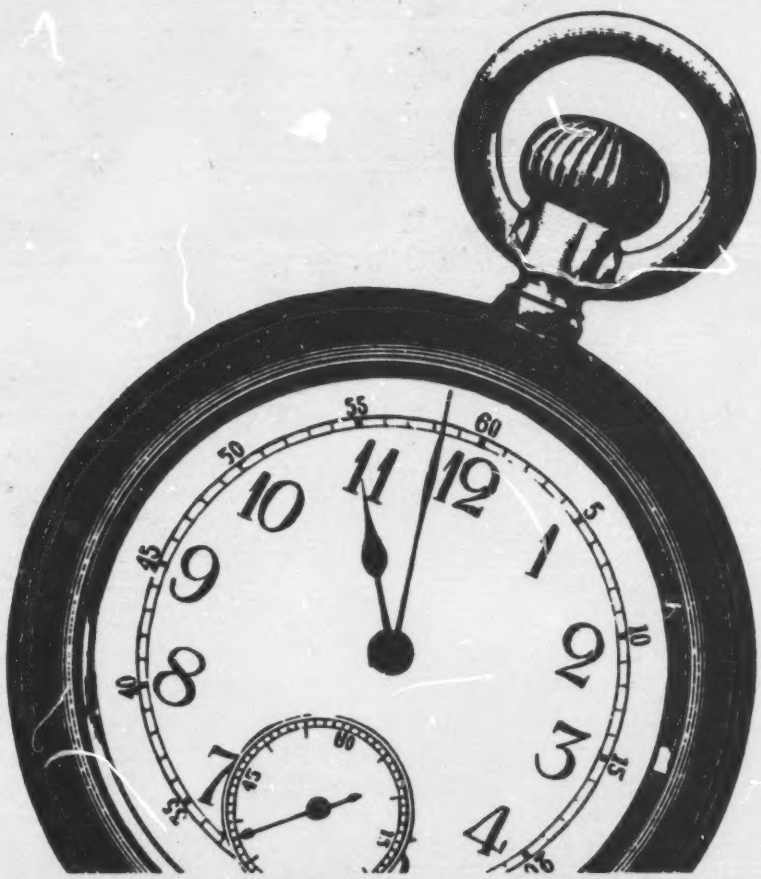

RETIREMENT & SOCIAL SECURITY

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1

INTRODUCTION: THE GREAT AMERICAN RETIREMENT DREAM

The camera shows an elderly couple tending their garden. "I've always enjoyed working," the husband reminisces. "When I began working as a young man, the government had just started a system called Social Security.... It was sort of a contract between working people and the government. Now the Administration wants to break the contract." The man explains that the White House has proposed cuts in Social Security benefits. His wife comments indignantly, "Why, the government acts as if they're giving us a handout." The ad ends with an unambiguous summary by the announcer: "Social Security. A contract, not a handout."

This TV ad was sponsored by the American Federation of State, County and Municipal Employees, and broadcast in dozens of cities in September 1981. It was a response to a proposal made by the Administration to trim Social Security benefits. The ad reflects the increasing concern of millions of Americans that they may not be able to count on what they thought they could take for granted, an economically secure retirement. It also expresses the popular belief that recipients have *earned* their Social Security benefits, and that reducing them or increasing the age at which people become eligible for them amounts to a broken promise.

> **"Americans now face the hard dilemma of how to salvage a Social Security system whose commitments have been expanding more rapidly than its resources. The public has to decide what the nation can promise to the elderly and what it can afford."**

Yet the proposal of the Reagan Administration was a response to a real need: to find some way to put a faltering system on a sound financial basis. This is the hard dilemma that Americans now face: how to salvage a system whose commitments have been expanding more rapidly than its resources. What has to be decided is what this nation can promise to the elderly and what it can afford.

THE GROWTH OF THE SOCIAL SECURITY SYSTEM

Throughout most of history, a retirement free from the need to work and the fear of economic hardship, has been the privilege of only a few. Most people looked forward to a time of real insecurity. If your family couldn't provide for you there were no other safety nets. Society assumed no responsibility for any individual's retirement. In the absence of private pensions or government plans that guaranteed income for the elderly, your "right" to retire was largely determined by your family's ability to support you.

This situation was what union leader Walter Reuther referred to in rallies for higher pensions in the auto industry in the 1940s, when he told his membership that "Security in old age is reserved for the blue bloods, the ones who were smart enough to pick the right grandfather before they were born. If you live on the wrong side of the railroad tracks, you are not entitled to it."

In the early decades of this century, some of the larger

American companies set up formal pension plans. In most cases, their costs were paid entirely by the employer, and the pensions were gifts rather than rights. And they were gifts that only a few workers could confidently expect to receive. It is estimated that by 1930 some 2,700,000 employees worked in companies that had some kind of private pension plan. But for various reasons, corporate pensions were an "if and maybe" proposition. First of all, employees could count on receiving benefits only if the company remained in business. Beyond that, if they were discharged or laid off for an extended period, if they joined a union, or did anything else that displeased management, they forfeited their "rights" to pension payments. As a result, those early private pension programs, which held out for the first time the promise that income in old age was more than an individual or family responsibility, did not really provide economic security for most Americans.

It was not until 1935, with the passage of the Social Security Act, that the situation changed. The Social Security System created by the Act was something less than the "cradle-to-grave" social insurance envisioned by President Franklin Roosevelt for every American. But the decision to take on as a public responsibility what had mainly been a family affair was still an enormous undertaking, and Social Security became the backbone of the nation's retirement system.

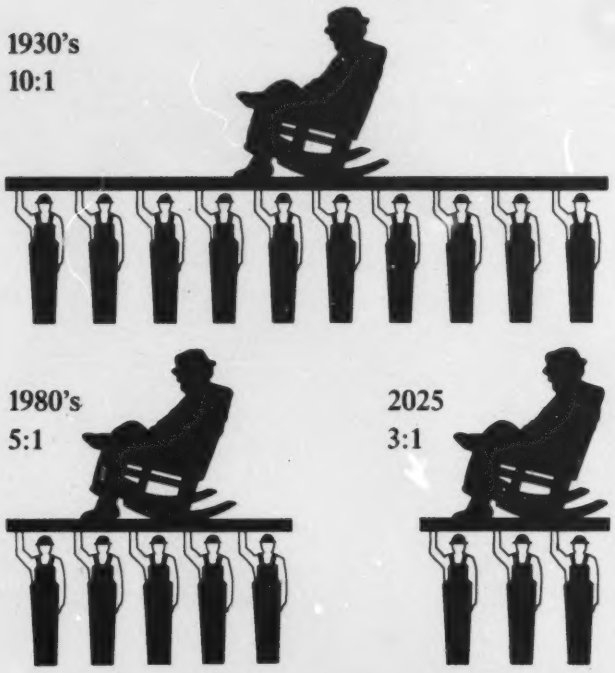
Social Security began fairly simply as a retirement insurance system closely tied to payroll taxes contributed by both a worker and the employer. The original beneficiaries were primarily industrial workers. Over the years other types of workers — including members of the clergy, farmers and other self-employed workers — were brought into the system. (The largest category of workers still not covered are Federal employees and some state and local government employees, few of whom actually want to be part of the system because they are already part of more generous pension plans.) Disability benefits were added in 1956, and Medicare was passed in 1965, providing additional assistance to the sick and the infirm.

Perhaps the most dramatic expansion of the system came with the hikes in benefits approved by Congress. In 1939, Congress changed the program's original benefit formula and its intent as a relatively straightforward retirement insurance system, by giving lower income workers more for each dollar than they paid into the system. Between 1950 and 1972, as the country's rapid economic growth led to constantly increasing wages, which in turn provided additional dollars for the Social Security system, Congress raised benefit levels ten times. Then in 1972 it amended the act with the provision that benefits would increase automatically as the cost of living

Dick Wright, Providence Journal-Bulletin.

What has happened in the absence of any national consensus about how to resolve the long-term problem is an indecisiveness in Congress, an inclination to avoid the hard choices about a system that affects — either as taxpayers or beneficiaries — 150 million Americans.

SOCIAL SECURITY: THE CHANGING RATIO OF CONTRIBUTORS TO BENEFICIARIES



rose, a decision that turned out to be one of the most fundamental — and expensive — revisions in the system's history.

Social Security has become a different and far more ambitious undertaking than anyone thought of in 1935. In 1950, Social Security was the source of only 27 percent of the retirement benefits that elderly Americans received. Today it provides more than half of those benefits. On the third day of each month, nearly one in every six Americans gets a green Social Security check in the mail. Many who receive those checks — whose average amount is about $400/month — are not older retired persons but disabled workers or widows, or college students whose breadwinning parent is disabled or dead. In 1980 the Social Security Administration channeled more than $100 billion from workers and employers to some 35 million retired workers, their dependents and survivors. Very few who heard President Roosevelt's description of a new plan to provide economic security for the elderly had any idea that it would grow into a system of such staggering proportions, one whose price tag would become by the 1980s the largest single commitment of the federal government.

As a consequence, many Americans now think of an economically secure retirement as a normal state of affairs, something they have earned and are entitled to. A man who administered that system for some years, A. Haeworth Robertson, calls this expectation the "Great American Retirement Dream." The belief of many Americans, says Robertson, is that "if they work until about age 60 or 65, they will then be able to live the balance of their lives in carefree and leisurely retirement, occupying themselves with hobbies, sports and travel — activities for which they had neither the time nor the money in their early years."

PAYING FOR THE SYSTEM

But with dreams come responsibilities. A program that comes with a price tag of more than $100 billion a year raises a good many questions about who will bear the high cost of good intentions.

The Social Security System is often called an insurance plan. The payments of wage-earners into that system are called contributions rather than taxes, as though they were voluntary. In fact, they are not, and Social Security is fundamentally different from an insurance plan. Payments are not set aside to mature, thus to ensure future payment. Instead, money paid in by working adults today goes directly to those who have already retired. Like the Social Security programs in most nations, this is a pay-as-you-go system, not a pension. The Social Security administration acts not as a fund manager, ensuring that we get the highest yield on our investment, but rather as a transfer agent. It is not, in other words, a system of enforced savings in which individuals are providing for their own retirement, but rather a unique compact between the generations. Those of us who are currently in the workforce pay for those who are currently retired. Those payments give us no more than a moral claim on the Social Security contributions that will be made by the next generation when we retire.

When Congress adopted the Social Security Act in 1935, the pay-as-you-go system was both realistic and politically attractive. The population was growing, so more was paid in than paid out. Many people who paid into the system in its early years didn't receive benefits from it, for the simple reason that they didn't live that long. In the 1930s, the average American would die two years before reaching retirement age which meant that the odds were against your ever living to collect benefits. At a time when ten workers were paying into the fund for every one retired person who received benefits, paying for Social Security didn't take too much of anyone's paycheck.

But there have been some fundamental changes since then. More people are living longer. Only two-fifths of those born in 1910 would reach the age of 65. Today that proportion is three-fourths. Thanks to the medical and nutritional advances of the past half century, each one of us

has a far better chance to live long enough to enjoy old age — and to collect retirement benefits — than our grandparents did. Furthermore, as Social Security benefits have become more generous, and American society more affluent, in recent years more people have been retiring at younger ages because they could afford to do so. As late as 1949, half of the men over 65, and nearly one third of the men over 70 were still in the labor force. Today only about 20 per cent of the men over 65, and 15 per cent of those over 70, are still working.

What has happened over the past half century, then, is that expectations for the Social Security system have increased, while the ratio of workers to beneficiaries has fallen drastically. In the 1930s, there were ten workers for each retiree. In recent years, because more of us live long enough, and more of us choose to retire, the ratio of workers to retirees has fallen to 5:1. By the year 2025, when the baby boom generation begins to retire, it will have declined to about 3:1. The cost of supporting the elderly will increase accordingly, and so, perhaps, will tensions between the generations. That transition poses a great variety of conflicts and choices.

THE LONG-TERM PROBLEM

Recently public leaders have warned that Social Security is now precariously close to bankruptcy, and that the monthly checks of retirees and other beneficiaries are in jeopardy. Such statements need to be put into perspective by distinguishing between the short- and long-term problems of Social Security. Over the short-term — throughout the rest of the 1980s — the system will have problems because of some overly optimistic projections that were made several years ago about the immediate economic future. Earnings are not growing as fast as expected. But no one is likely to be deprived of a check as a result. To make up the difference between income and outflow many short-term solutions are available, and Congress will be addressing them in the coming months.

Around 1990, the Social Security fund will again enjoy a substantial surplus because of recent payroll tax increases. The post World War II baby boom generation will be in its prime earning years, and this will provide more than adequate revenues for the system.

The real problem, and the main focus of our concern, is the long-term prospects. In about 2010 when the baby boom — those now in their 30s — begins to retire, we will face a situation in which there will be an unprecedented burden on wage-earners to support a far larger number of the elderly. Perhaps the most basic question is how much the wage-earning population is willing to pay to support the Social Security system. In 1959, the typical American family paid only 1.4 percent of its income in Social Security taxes. By 1969, it paid 3.8 percent.

During the next decade, Social Security taxes almost doubled, to 7.1 percent in 1980. These rises were matched by higher contributions from employers. Over a 20-year period, then, the burden of paying for Social Security has increased almost five-fold. Worse, it will have to increase far more over the next few decades unless changes are made in the level of benefits or in the age at which workers retire.

What about reducing benefits? Consider what happened, in May, 1981 when the Reagan Administration suggested a change in the ground rules, reducing benefits for workers who choose to retire before the age of 65, and taking other measures that would trim Social Security

Photo by Ann Chwatsky.

"They put horses to pasture, they feed them on hay,
Even machines get retired some day.
The bosses get pensions when their days are through,
Fat pensions for them, brother, nothing for you.
...Who will take care of you,
How will you get by
When you're too old to work and too young to die?"

Song written for UAW rallies in the 1940s as workers protested against meager pension coverage.

GLOSSARY

Various words and phrases that are not part of our everyday vocabulary appear in discussions about the nation's income assistance programs for the elderly. To understand such discussions, you should be familiar with the following terms:

Consumer Price Index (CPI): An index published by the Bureau of Labor Statistics, Department of Labor, which measures average changes in prices of goods and services.

Contributions: Social Security or payroll taxes.

Cost of Living Increases: Increases in benefit amounts automatically paid in July of each year based on changes in the consumer price index.

Demography: The scientific study of the size, composition, and changes in human populations.

Disability Insurance (DI): The Social Security cash program that provides benefits to replace a portion of earnings lost due to a severe and long-lasting disabling condition.

Earnings Test: The provision that requires a person's Social Security benefits to be reduced by $1 for each $2 of earnings over the annual exempt amount. The test is not applied once a beneficiary reaches age 70.

FICA: Federal Insurance Contributions Act, which requires payment of the payroll tax by employees and their employers.

General Revenues: Federal funds raised by means other than the payroll tax, including funds raised through corporate and individual income taxes, and deposited in the General Fund of the Treasury.

Mandatory Coverage: Requiring by law that all workers employed in certain occupations and/or by certain types of employers participate in the Social Security system; now includes practically all private sector workers.

Medicare: The health insurance portion of the Social Security Act (Title XVIII), which provides Hospital Insurance in its Part A and Supplementary Medical Insurance in its Part B.

Old-Age and Survivors Insurance (OASI): The basic Social Security program which replaces a portion of earnings lost on account of the retirement or death of an insured worker through monthly benefit payments to the worker himself, his dependents, or his survivors.

Payroll Tax: The Social Security or FICA tax; a tax on earnings that is paid by both employees and employers at the same rate (6.13 percent in 1980) and by the self-employed (8.1 percent in 1980) up to a certain limit and provides the primary source of revenue for the Social Security trust funds.

Portability: A worker's ability to take pension credits earned on one job to another job in a different company, industry, or area of the country.

Replacement Rate: The percent of a worker's covered preretirement (or predisability or death) earnings replaced by his or her monthly Social Security benefits.

Survivor Benefits: Monthly cash benefits which can be paid to certain survivors of a deceased worker, including a spouse, former spouse, children and parents.

Tax Rate: The percent of covered earnings deducted from a worker's paycheck as contributions to the Social Security system, with an equal amount paid by employer. The self-employed are subject to a different rate.

Vesting: A legal, nonforfeitable right to receive a pension after meeting a plan's eligibility conditions.

Weighted Benefit: One which replaces a larger percentage of pre-retirement earnings for people with lower earnings than it does for people with higher earnings. This is done in the Social Security program.

benefits by almost $50 billion over the next five years. Ninety organizations representing some 40 million Americans united to protest the proposed benefit reductions. Under intense pressure, the administration referred the matter to a 15-member commission that was instructed to present its report on December 31, 1982 — *after* the mid-term elections.

Although polls show that the public would support certain measures — such as raising payroll taxes slightly if that is necessary to keep Social Security solvent — most of the proposed changes are unpopular because they would reduce benefits:

- ★ A 92% majority rejects the suggestion that benefits for those already retired be reduced.
- ★ An 85% majority rejects the suggestion that benefits be reduced for people who retire in the future.
- ★ A 73% majority rejects the suggestion that cost-of-living adjustments in retirement benefits be reduced.
- ★ A 64% majority rejects the suggestion that Social Security payments be made only to elderly people who can prove that they have little or no other income.
- ★ A 62% majority rejects the suggestion that benefits be eliminated for the minor children of retired workers.
- ★ A 59% majority rejects the suggestion that the age of eligibility for full benefits be changed from 65 to 68.

For thirty years, Congress had the pleasant duty of expanding the benefits of the Social Security system. In doing so, its members increased their popularity with their constituents. Today, they have a choice among politically painful options. Payroll taxes might be increased or benefits could be reduced. The eligibility age might be redefined, or medical benefits eliminated. The key problem is that elected officials are loathe to propose cutbacks in a very popular program that Americans have come to take for granted.

What has happened in the absence of any national consensus about how to resolve the long-term problem of Social Security is an indecisiveness in Congress, an inclination to avoid the hard choices about a system that affects — either as taxpayers or beneficiaries — 150 million Americans.

Americans today are being asked to make increasingly large payments into a system in which they have less

Don Wright, *The Miami News*.

The toughest cut

and less confidence. When asked, "Do you think you will get as much money out of the Social Security system as you pay in?" two-thirds of the population answers no. Three-quarters of the adult population has little or no confidence that Social Security will have enough funds to provide retirement benefits when they expect to retire.

Those concerns are only heightened by the fact that other sources of retirement income on which most Americans depend have also become less reliable. The retirement income of most Americans rests on a three-legged stool of Social Security benefits, private pensions, and personal savings. Private pension plans are threatened on two fronts: Financially pressed companies have cut back on their contributions into pension funds, resulting in a shortfall in the amount needed to meet pension obligations. In addition, very few pension programs take into account the impact of inflation, which eats away at the value of pension benefits. For the same reason, the purchasing power of personal savings is being reduced. (If inflation were to continue at an annual rate of ten percent, the purchasing power of $1,000 would decline over twenty years to about $120.) The three-legged stool has become very wobbly indeed. Many Americans would agree with a 55-year-old widow who depends upon Social Security benefits and the proceeds from the sale of her house. As she puts it, "Both my feet are planted on shifting sands. There is no such thing as a worry-free retirement."

So a solution to the Social Security dilemma must be found, a choice must be made. As you read these pages, many of the nation's leaders are meeting to debate the alternatives for the nation's retirement system. From such meetings dozens of policy proposals will emerge to re-shape the existing system and redefine the options.

On an issue that has an immediate impact on our lives, the nation's leaders need to hear the considered judgment of the public.

2

THE HIGH COST OF GOOD INTENTIONS

> **"Because of a changing balance between young and old, and more austere economic circumstances, the agreement between the generations that Social Security represents has become a far harder bargain."**

Imagine what your reaction would be if several neighbors proposed a simple and mutually beneficial bargain. They want to know whether you will agree to support those few who are no longer able to work, in exchange for the promise from the younger generation that its members will return the favor when *you* are in the same position. This is a proposal that others in the community have agreed to, and your neighbors want to know whether you want to be part of the arrangement.

How do you think you'd react? To reach a sound decision, you'd want to assess costs and potential benefits. One of your concerns would be to figure out how many other people in the community would be sharing the burden of support over the next few years. And you'd be equally concerned about how many younger people have agreed to that arrangement — for they are the ones you'll be dependent upon. You'd probably ask certain questions about who will be eligible for support — whether, for example, the town grocer deserves support if, in good health at the age of 62, he decides to retire. Since this arrangement involves your friends and neighbors as well as yourself, you'd think not only of the personal security that the arrangement might provide but also of its effect on your community. You might ask whether the fund would provide for the wife and children of the school librarian who died last winter.

Stripped to its essentials, that arrangement is what the Social Security system represents for the nation as a whole. It is a compact between the generations, by which the taxes paid by those currently in the workforce are used to provide benefits to those who are currently retired. It is a system that embraces two very different objectives: it is a pension scheme and a welfare program. It is based upon certain assumptions about such fundamental issues as who should be considered elderly, and the extent to which their support is a community obligation. It specifies the circumstances under which benefits will be paid, the amount of those benefits, and who is obliged to bear the burden of their cost. It is, in brief, a formal system that embodies some of our most heart-felt values about what we owe not only to the elderly but also to others who are unable to provide for themselves.

Some people regard Social Security as a series of promises that we have agreed to, and agreed to pay for. Here, for example, is what a male worker beginning his first job can expect:

- ★ If he dies at an early age, monthly payments will be made to his dependent wife for as long as she lives, and to his dependent children.
- ★ If he becomes disabled, he (and possibly his wife

and children) will receive monthly payments as long as he is unable to reenter the work force.

★ If he lives to retirement some forty years later, he will be eligible for monthly benefits for the rest of his life. If his wife survives him, she too may be eligible for benefits.

To some 36 million Americans — nearly one in every six — the Social Security system now provides a monthly check, and the assurance that old age, widowhood, or disabling injury will not result in destitution. To another 116 million Americans who are currently paying Social Security taxes, the system holds out the promise that they too will be provided for when they are unable to work.

In 1937, when Social Security taxes were first collected it was a modest operation: the tax rates were set at one percent of the first $3,000 of a worker's pay, with a maximum of $30 a year, and the benefits averaged $22.60 a month. Over the years, and especially in the 1950s and 1960s when tax collections exceeded benefit payments and the Social Security funds ran a surplus, Congress kept raising the level of payments. From those modest beginnings, the funds required to meet the rising cost of the Social Security system's good intentions have grown to truly awesome proportions. This year, some 120 million workers will pay more than $70 billion in Social Security taxes. For at least a fourth of them, Social Security taxes — whose average is now about $600 per year — exceed their federal income taxes. As the size of payments has grown and the number of recipients increased, the total bill for Social Security benefits has rocketed upward and now amounts to more than a quarter of all federal expenditures.

As benefit levels have risen, most recipients of Social Security payments have done quite well by the system. Most people believe that Social Security payments are simply the return on contributions paid during their working years. In fact, the average retired person today collects benefits that are *five times greater* than the combined taxes actually paid by them and their employers. Social Security has, in other words, provided benefits that far exceed the value of past payroll taxes.

And its benefits have had a dramatic impact on the economic well-being of the elderly. Over the years, Social Security payments have comprised an ever-increasing share of the income of the elderly — from about one-third in the early years of the program to more than one-half today. If the adequacy of those payments is measured by the percentage of the elderly who still suffer a poverty-ridden old age, we have indeed made real progress. Over the past twenty years, the share of the elderly who are classified as poor has dropped by more than half — from 35

Ed Gamble, courtesy Florida Times-Union.

"Hang in there, sonny ... somebody will come along to replace you!"

"I don't think I'll ever mind being retired. The good thing about it is that I don't have to get up in the morning and hit the subways, and deal with the aggravation of the job. There were times when I would get pretty uptight about a lot of things at work. I knew I'd be getting a pretty nice pension, so I said 'Who needs it?' and decided to stay home. Now I have the time to do all the stuff that has been piling up for months — for years even. I enjoy it. Because I have the time, I'm being very creative all of a sudden."

Male, age 59
Former Postal Worker

THE SOCIAL SECURITY SYSTEM IN BRIEF — A GUIDE TO PROGRAMS AND BENEFITS

The Social Security Act and related laws establish a number of programs that have the basic objectives of providing for the material needs of individuals and families, protecting aged and disabled persons against the expenses of illnesses that could otherwise exhaust their savings, keeping families together, and giving children the opportunity to grow up in health and security. The system is made up of four elements:

★ Old Age and Survivors Insurance (OASI) provides benefits for the retired worker. Workers can get early retirement checks at age 62 and full benefits at 65 if they work long enough under Social Security. An aged spouse can draw an additional 50 percent. Those who retire at 62 get 80 percent of their full benefits.

What is less well known is that this part of the system also provides substantial benefits for a worker's dependents and survivors. When a worker dies, the family gets a $255 burial payment. Monthly benefits go to the dead worker's unmarried children under 18 (under 22 if in college), disabled children 16 or older, a widow or widower caring for children under 18, a widow or widower 60 or older, a disabled widow or widower at 50, or dependent aged parents.

Families of retired or disabled workers also can get benefits. These go to spouses 62 or older; wives under 62 caring for children under 18 or disabled; unmarried children under 18 (under 22 if in college), and disabled children.

★ Disability Insurance provides income for a disabled worker and also for his dependents. Workers severely disabled before age 65 get disability checks if they have a physical or mental condition that prevents them from working and lasts at least 12 months or is terminal. Checks start in the sixth month of disability. After two years, disabled workers get Medicare.

Workers 31 or older need to have worked five of the past 10 years to be protected against disability. Those 24 to 31 need to have worked half the time since their 21st birthday. Those under 24 need credit for 1½ years of work in the past three years.

The first two elements are grouped together and referred to as OASDI. The benefits of OASDI are related to the earnings of the individual worker.

★ Medicare helps to meet medical expenses of persons after age sixty-five and of some younger disabled workers. It pays hospital bills for up to 90 days for 25 million people over 65, 2.4 million disabled workers and 600,000 other disabled children and adults. For the first 60 days it pays all covered services except for the first $204. From the 61st through 90th day, Medicare patients must pay $51 a day themselves.

Most Medicare beneficiaries opt to pay monthly premiums of $11 for Supplementary Medical Insurance, which helps pay doctor bills.

★ A fourth program, Supplemental Security Income (SSI) is administered by Social Security, but it is funded by general revenues — income taxes, and corporate and other taxes. It provides assistance for anyone (whether or not they qualify for Social Security) who has turned 65, and who has income of less than $264.70 a month ($397 for a couple).

If you want an estimate of your benefits, you can get a report of earnings credited to your Social Security number by filling out postcard form #SSA-7004-PC (1-79), and mailing it to:

Social Security Administration
P.O. Box 57
Baltimore, Maryland 21203

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to 15 percent. And even that figure understates the extent of the change because it does not count the value of government services. If Social Security was designed to move us to a point where the elderly are treated as well as the young, we have just about arrived.

In fact, it is now frequently remarked that because of continual hikes in Social Security benefits, and the protection provided by cost-of-living allowances against the ravages of inflation, the elderly are becoming *better* off than the young. That has become a real point of contention in debates about the level of benefits the elderly should receive, and the degree of support that the working generation should shoulder.

Consider, for example, the guarantee, made by Congress in 1972, that Social Security benefits would rise as rapidly as the cost of living. Like other additions to the

Social Security program such as Medicare and Disability Insurance, this adjustment turned out to be far more expensive than originally envisioned, largely because it went into effect in the mid-1970s just as the nation was entering an era of high inflation. It is estimated that in 1982 cost-of-living adjustments will add $12-14 billion to the Social Security program in payments to the retired, to survivors, and for disability insurance.

It has been argued that using the Consumer Price Index to protect the income of the elderly against the ravages of inflation was questionable from the beginning, for that Index incorporates two large expenses that the elderly do not typically bear — the cost of housing and of mortgage interest rates. The practice of tying Social Security benefits to the Price Index has been criticized for another reason too, for it places the retired population at an advantage over those currently in the labor force. Even those workers who are protected by cost-of-living allowances typically get raises equal to only a portion of the rise in the CPI. The result, as economist Rita Ricardo-Campbell points out, is that the elderly have been making out better than people in the workforce whose taxes pay for their Social Security benefits. "We have been taking real income from young people who are heads of households, who don't own a home, who don't have the assets, and giving it to the old people, some of whom live in mortgage-free homes and have accumulated savings." The most telling statistic is that while average Social Security benefits since 1970 have risen by 37 percent after adjusting for inflation, average weekly wages have risen not at all.

As we approach the fiftieth anniversary of the Social Security system, a fundamental question has arisen about whether the nation can meet the rising cost of its good intentions: have we promised more than we are willing to pay for?

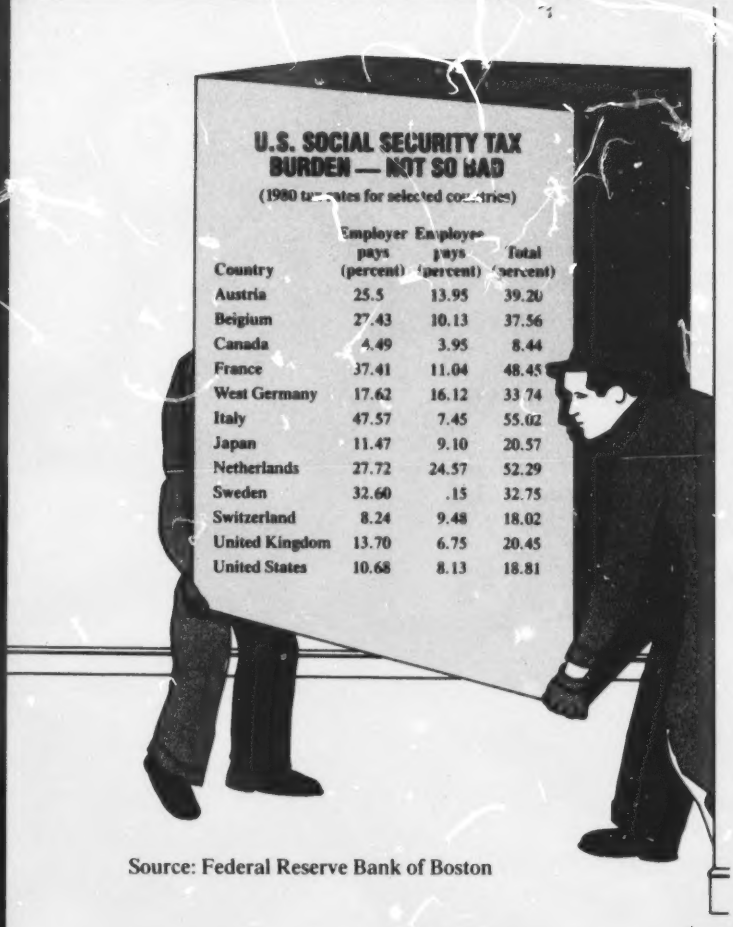
THE CHANGING BARGAIN

The cost of payments for Social Security has increased dramatically. In its first few years, the combined payroll taxes paid jointly by employer and employee were 2 percent. By the mid-1950s it had gone up to 4 percent, by the mid-1960s to more than 8 percent. In 1981, it was more than 13 percent. Which is to say that over a period of forty years Social Security taxes have increased six-fold. As we have already noted, if benefit levels are not redefined, and the method of financing them remains the same, those rates will have to increase far more over the next few decades. The current tax rates, which require equal contributions of 6.7 percent from the employee and 6.7 percent from the employer for a total of 13.4 percent are scheduled to

Chick Harrity — U.S. News and World Report

Senior citizens protest recent budget cuts in government programs that benefit the elderly.

"I was 67 when I retired. I could have worked for a few more years if I chose to. But after 41 years of teaching, I had had it. So I retired, and got the maximum amount of my pension. I think it's best to retire when you're still active enough to do what you don't have the time to do when you're working."
Female, age 76
Former schoolteacher



Source: Federal Reserve Bank of Boston

increase to a total of 15 percent in 1990, more than 20 percent in the year 2020, and almost 25 percent by the year 2050.

Part of that increase is necessary because of higher benefit levels. But a more fundamental reason is the changing ratio of workers to recipients. For several decades after the Social Security Act was passed, the system was financially sound because the younger age group was relatively large compared to the old one that they were supporting. Essentially, this was the same situation that people used to face within their immediate family. When social security was a family affair, parents were motivated to have large families. If you had more children, it was more likely that your needs would be met when you were no longer able to care for yourself.

Today, our situation is similar to the one faced by parents with relatively few children. As a result of the low birth rates of recent years, more elderly Americans will have to be supported by a relatively small generation of younger workers.

The problem is complicated by our economic circumstances. In the post-war period, as the nation's economy grew rapidly, most families could afford higher Social Security taxes because their real income was increasing. Today, because of slower growth and rapid inflation the real income of many families is no longer rising. Thus any new demand on income, such as higher Social Security tax rates means that some other item in the family budget must be reduced or eliminated. Slower economic growth also means higher unemployment, which creates additional strains in the system because the unemployed don't pay Social Security taxes. In 1981, the Social Security system lost an estimated $100 million a month in revenues for every million workers who were laid off.

Because of a changing balance between young and old, and more austere economic circumstances, the agreement between the generations that Social Security represents has become a far harder bargain. In reconsidering the future of that arrangement we are really asking ourselves what the generations owe to one another.

What are the elderly entitled to? Should Social Security payments be sufficient to allow them to maintain a pre-retirement standard of living, or merely to keep them from sinking below the poverty level? Under the adverse economic circumstances that the nation is currently experiencing, many working adults have been forced to tighten their belts because they are not fully protected against inflation. Meanwhile Social Security payments *have* been adjusted to provide full protection against rising prices. Is that fair? Should the elderly be expected to reduce their expectations too? Or should the promise of certain benefit levels be regarded as an inalienable right, a promise that cannot be broken?

What are the obligations of working adults? How much of their current income should they give up to pay for Social Security? At a time when working adults have less confidence that the Social Security system will have enough money to pay its obligations, and when the ratio of taxes to eventual benefits is likely to decline, why should the younger generation feel bound by a compact made without its consent?

At what point do commitments for the elderly start competing with other national priorities, such as national defense?

The dilemma is clear: Over the next few decades the number of retirees will increase relative to the number of workers. If high inflation continues, the value of the other sources of income upon which the elderly retire — such as personal savings and private pensions — will decline, making Social Security benefits, which are indexed to increases in the cost of living all the more important. But the generation of working adults will face competing pressures and priorities that may limit its ability and inclination to provide support for the elderly — and those pressures will only increase if the economy remains

sluggish. How under those circumstances can we accommodate the expectations of the elderly without imposing an unbearable cost on working adults?

HOW CAN WE ADJUST TO THE BARGAIN?

When the National Commission on Social Security met several years ago to ponder the system's future, it concluded that if contributions are to keep up with payouts, combined employee-employer deduction rates would have to rise to 23.8 percent — which would put us in the same range as most of the Western European nations today. Leaving aside public resistance, one problem created by such an increase is that its burden would fall more heavily on low wage earners. Social Security taxes are like sales taxes in that the effective bite out of one's paycheck is larger for low wage earners. Because there is a lid on taxable salaries — currently defined as $32,400 — people who make more than that are not taxed to the same extent.

The Commission identified another reason to oppose higher Social Security taxes. As the employer's Social Security contribution rises, those costs are passed on to workers or consumers or both. Employers can choose whether to decrease wages or raise prices — and both would have the effect of impeding the recovery of the economy. For these reasons, among others, the National Commission on Social Security came to the conclusion that a combined rate of 23.8 percent is too high, and it recommended a ceiling of no more than 18 percent, with the remainder of needed funds to come from the U.S. Treasury.

Is this a solution, financing Social Security out of general tax revenues? There was a reason why this arrangement was not selected when Social Security was first proposed. Responding to concerns that Social Security not be a government dole, President Roosevelt ruled out the use of general revenues to finance Social Security. The system was far more acceptable and commanded far more public support as a contributory insurance scheme.

At the time, however, one of the strongest arguments for not financing the program out of general revenues was the fact that a substantial portion of the working population — 40 percent — was not eligible for the program's benefits. Today, when 90 percent of the working population is covered, that argument is not nearly so compelling.

Those who advocate the use of general revenues further argue that since so much of Social Security now amounts to a welfare system — in which benefits are weighted in favor of those who earn less — it is fair that everyone should bear its burden. Critics reply that if Social Security were financed by general revenues, there would be open competition among various disadvantaged groups for government funds, which would lead to a far more contentious political climate. They point out too that at a time when the Federal government is already running a deficit of more than $100 billion a year, there simply isn't any general revenue to draw upon.

There is another suggested solution: to reduce, or at any rate not to allow any further increases in benefit levels. There is, of course, a good reason why so few members of Congress advocate this as a solution. In a nation where there is general support for maintaining current benefit levels, the elderly who would be immediately affected by any cutbacks, or any readjustments in cost-of-living allowances, are passionately opposed — and many of them are prepared to express those sentiments at the voting booths.

So the question remains whether the current generation of workers will accept a hard bargain in order to meet the rising cost of the Social Security system. There are clear indications of strong public support for this, the nation's most expensive program. But there is as yet no consensus as to how its promises may have to be redefined or costs redistributed if Social Security is to provide for an unprecedented number of people who, thirty years from now, will approach retirement age with the expectation that their needs too will be met.

One quick answer to this dilemma, some people suggest, is that we change the retirement age. So let's examine this alternative.

"Americans should be able to live comfortably when they are no longer able to work. Retirees should have an adequate income. But what does that mean? We know what living comfortably does *not* mean. It does not mean reducing your living standards by seventy per cent. It does not mean being tied to your house like a dog because you cannot afford a car. It does not mean grovelling for discounts, food stamps, reduced senior citizen bus fares, energy stamps, fifty cent lunches, or other kinds of charity. It does not mean being forced to move from Detroit to Louisiana because that is the only place where you can make ends meet."

Ewa Bielski
Chair
Citizens Commission on Pension Policy

3

WHAT'S SO SPECIAL ABOUT AGE 65?

I had no intention of retiring. It just didn't make any sense. I had an excellent job that paid well, and good prospects for further promotion. If there had been no incentive to retire, I wouldn't have. But after thirty years of working for the government, I was entitled to retirement. I paid my dues — there's no question about that. If I had worked another three years, the benefits would have been no better. So it didn't make any sense for me not *to retire.*

But as far as the whole country goes, the idea shouldn't be to offer people so many incentives to retire early. If retirement weren't so attractive, people would work a little longer and pay their own way.

The biggest mistake the government is making is not putting people like myself to work part-time. I'd love to go back, say two days a week, or two to three hours a day. I worked for a long time. I feel that my knowledge and experience are valuable.

The speaker is a 59-year-old male, a retired postal worker. And there is some reason to suppose that his feelings are shared by many Americans. In fact, if anyone were to ask the forty-, fifty- and sixty-year-olds in a typical American community about their attitudes towards retirement, the responses would probably be pretty straightforward. And they could be summed up in three ways.

Some of us just can't wait to quit! We are tired of the rat-race, or perhaps we have a passion for gardening, the desire to build a boat, to read some books — or we simply want to take life easier and watch the grandchildren grow up. The moment we are eligible, that "gone fishing" sign is going up — and they'll never catch us with a lunch box or "on the 7:50" again.

"If some of the other suggested solutions to the nation's Social Security dilemma have a great many drawbacks, redefining the age at which people qualify for benefits offers a plausible alternative."

But for others just the opposite is true. We can't imagine what we'd do if we weren't working: it's our work that gives *meaning* to life. We like our jobs, and don't like talk of retirement. In fact, we don't plan to quit until they carry us out, feet first!

And then, in between, there are those, like the retired postal worker quoted above, who would like to make a change in their sixties. They'd still like to work at something — but something different, and only some of the time.

Yet we think of 65 as retirement age!

Very few of the assumptions that are written into law have such far-reaching consequences, and such an immediate impact on our lives as the assumption, written into the Social Security Act, that retirement takes place at age 65. This assumption defines a boundary and articulates a right, that once people reach 65 they can retire.

The age at which retirement should take place has become an issue in the debate over the future of Social Security. If some of the other suggested solutions to the

nation's Social Security dilemma — higher taxes or decreasing benefits — have a great many drawbacks, redefining the age at which people qualify for benefits offers a plausible alternative. There is no question that that would take much of the pressure off the Social Security system. Economist Michael Boskin, who advocates a retirement age higher than 65, argues that reducing the length of retirement by a single year would lower the Social Security deficit "by about $350 billion." There would be tremendous savings if the age of early retirement, now at 62, were raised to 65, and full retirement deferred from 65 to 68.

Modest new incentives to delay retirement have already been mandated. Beginning in 1982, Social Security will offer a 3 percent increase in retirement benefits for each year that workers stay on the job past the age of 65, and it has been suggested that those incentives be expanded to a bonus of 8-10 percent.

But after several decades of moving in the opposite direction, delaying retirement is a development that many people adamantly oppose. After almost fifty years of being told that retirement begins at 65, many people consider retirement at that age as an inalienable right, an option to which they are entitled even if they are in good health.

When the Social Security act was first proposed, Congress' decision to use 65 as the age of eligibility wasn't entirely arbitrary. It was the same age that had been used in European plans since the first comprehensive social security system was inaugurated in the nineteenth century in Bismarck's Germany.

There was, however, an important difference between objectives of the system here and those in Europe. During the Depression, elderly workers posed an obstacle to millions of people in the prime of their working years who were unemployed. One of the motives in making age 65 the *mandatory* age of retirement, and declaring that Americans would not be eligible to collect full benefits unless they stopped working, was to make way for younger workers. In the United States, then, the goal was not just to provide for the needs of elderly individuals but also to make room for younger workers at a time of high unemployment.

The situation of the elderly today is far different from what it was fifty years ago. Then, only 54 percent of all men and 62 percent of all women lived until age 65; and those who did so could expect to live for another twelve years. By 1980, 68 percent of all men and 82 percent of all women could expect to live until age 65; once they reached that age, they could expect to live — and collect pensions — for another 16 years. Furthermore, today's elderly are healthier, and they are less likely to have worked in

Courtesy of Bettmann Archives.

Pablo Picasso was a prominent example of an elderly person who remained productive and creative until well past the normal age of retirement.

SORRY TO DISRUPT YOUR RETIREMENT, Ma'am, BUT WE'RE BROKE AGAIN AND WILL NEED YOUR HUSBAND TO WORK A FEW MORE YEARS!!
SOCIAL SECURITY

Ed Gamble, courtesy Florida Times-Union.

dangerous or physically demanding jobs where age has a direct bearing on ability to perform the work.

But if those improved work circumstances mean that more people are able to continue working past their mid-60's, fewer are actually doing so. The Social Security system itself has offered substantial incentives to retirement simply by making benefits available. In 1956 Congress first permitted women to retire at age 62, at 80 percent of the standard pension; in 1961 men were allowed to do the same. And an "earnings test," which reflects Congress' original intention to make way for younger workers, specifies that even at age 65 you are not eligible for full benefits if you earn more than $6,000 in other income. If your income from stocks, savings, or rental property exceeds that amount, that's all right. But if you continue working and earn more than $6,000, you will receive reduced benefits as a result. The combined impact of the early retirement option and the "earnings test" is to encourage older workers to leave their jobs.

That is exactly what has been happening. In recent years, there have been two apparently contradictory developments. On the one hand, we have substantially done away with mandatory retirement for people who are under 70. Responding to strong pressures to abolish laws that discriminate against the elderly and prevent them from working because of their age, Congress voted in 1978 to raise the mandatory retirement age from 65 to 70 in most private industries and to remove such restrictions for most federal employees. That, of course, does not compel anyone to stay in the labor force, but gives people the option of doing so. President Reagan, at age 71 the oldest man ever to serve as President, has endorsed legislation that would abolish mandatory retirement altogether. "When it comes to retirement," as he puts it, "the criterion should be fitness for work, not year of birth."

"I don't think mandatory retirement is a good idea. People should work until they want to retire. If someone is 50, and financially able, and he wants to retire — by all means, let him! If he's 75, in good health, and doesn't want to retire, why force him? Let the individual be the one to determine when to retire, not you or somebody in Washington."
Male, age 64
Truck driver

At the same time, however, fewer older workers stay at their jobs. Older people want the option to leave at the time of their choice. But given that option, most choose to leave the workforce at an earlier age than their counterparts did a generation earlier. Two-thirds of all the people who qualify for Social Security benefits now retire before the age of 65. As recently as 1949, half of the men over 65, and nearly one-third of the men over seventy were still in the labor force. Today, only about 20 percent of the men over 65 and 15 percent of those over 70 are still working.

This trend toward earlier retirement has been one of the most significant social developments of the past few decades. As a result of various inducements to early retirement, combined with longer life expectancy, more of the elderly are collecting benefits for a longer stretch of time. And as a result of the special inducements to retire

EARLY RETIREMENT: HOW THE SOCIAL SECURITY SYSTEM CURRENTLY WORKS

Here are answers to some of the most commonly asked questions about how Social Security regulations may affect your decision about when to retire.

What if I retire before age 65? If you retire at 62, the earliest at which you can receive a Social Security payment, your monthly benefit is cut 20 percent from what you would get if you were 65. If you retire at 63, your benefit is cut 13.3 percent; at 64 it is cut 6.7 percent. The reduction is permanent — it doesn't go back to a higher rate when you reach 65.

What if I keep working beyond age 65? As of now, people who reach age 65 get a 3 percent benefit increase for each extra year of work through age 71.

How does early retirement affect benefits for my spouse or children? If your spouse is at least 65 when you retire early, he or she gets half the full benefit you would have gotten at 65, even though you are collecting a reduced benefit. If your spouse is under 65 and decides to collect benefits early with you, he or she will receive permanently reduced benefits. At age 62, for instance, the spouse currently get 37½ percent of your age 65 benefit. A child or qualifying student still gets 50 percent of your age 65 benefit, even though you retire early.

Does it pay to retire early? That's a decision that must balance the loss in benefits against your personal desires and financial situation. Someone who retires at 62 gets a head start on collecting benefits. Counting only the current 20 percent cut in benefit amount, someone who retires at 62 would be ahead of the game until age 77 in terms of total dollars received from Social Security. Experts warn, however, that the early retirement loss will be greater for someone earning the maximum amount covered by Social Security because by retiring early such a person loses three years of high income history. This is especially important because the maximum covered wage subject to payroll taxes is rising each year.

Once I start getting benefits, can I work without being penalized? It depends on your age and on how much you earn. As of 1982, if you're between 65-70 you can earn as much as $6,000 without losing benefits. If you top the ceiling, your benefits are reduced $1 for every $2 exceeding the limit. Once you reach age 70, there is no limit on what you can earn.

Is all income subject to the ceiling? No. Among income not subject to the lid are dividends from stocks and mutual funds, interest from savings accounts, gains from the sale of securities and payments from pensions and annuities.

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before the "normal" age of 65 (with somewhat reduced benefits) workers pay taxes into the system for fewer years.

Private pension programs often have a similar effect in encouraging early retirement. As a result of concessions won by the United Auto Workers in the 1960s for a "thirty and out" provision, which gives full benefits to anyone with thirty years of service, the average retirement age at General Motors has been as low as 58. In recent years, many older workers who are faced with the choice between an extended layoff or a difficult search for a new job, have decided instead to take advantage of the early retirement option.

REDEFINING RETIREMENT

Yet there is reason to believe that many Americans would choose to continue working, though not necessarily at the same jobs, if the right options were available to them. Many retirees indicate that they want time off and a change of jobs, not that they want to sever their relationship with the world of work. In response to a 1981 survey conducted for the National Council on Aging, three-quarters of the people surveyed — all 65 or older — said that they would like to continue working, although most said they would prefer part-time work. The idea that at age 65 a worker has "paid his dues" and should stop working entirely is at odds with what millions of Americans would prefer. As Paul Woodring, a writer and educator, puts it,

> When I was younger, I just assumed that all people over sixty-five were eager to retire and wanted nothing more than the right to go fishing 365 days a year. But when I found myself approaching sixty-five — without feeling particularly "aged" and while still enjoying my work — I began wondering who had decided sixty-five is the proper age for forced retirement. The man who reaches that age in good health suddenly realizes that he faces perhaps twenty

Photo by Ann Chwatsky.

"Gradual retirement" plans would give people in their 60s and early 70s more opportunity to utilize their skills and experience.

> years of unemployment — a period as long as infancy, childhood and adolescence combined. And however much he may enjoy leisure and may have looked forward to vacations during his working years, he now knows that this vacation is going to be much too long.

One way of relieving the pressure on the Social Security system would be to provide a wider range of options for older workers who, like Woodring, seek an alternative to twenty years of "enforced vacation." Essentially, such proposals redefine the meaning of retirement. Rather than consisting of an abrupt transition from full-time work to full-time leisure, retirement might be redefined as a time to try something new or to work on a part-time basis.

Currently, many employers regard gradual retirement as an administrative inconvenience. But in a society that consists of growing numbers of the "young old" — people between their early 60s and early 70s who are still healthy and energetic and whose skills are currently underutilized — the option of new work roles for older workers would benefit both the worker, who would be spared the abrupt transition of a "cold turkey" retirement, and the society by relieving some of the pressure on the Social Security system.

Gradual retirement was introduced on a nationwide scale in Sweden in 1975 when a Partial Pension Scheme was adopted. Under the terms of that plan, older workers in their mid-60s can switch to part-time jobs without jeopardizing fringe benefits, and still accrue credits that would increase their pensions at age seventy. The main problem in Sweden seems to be in defining part-time jobs that are equivalent in skills and responsibility to full-time jobs. If such an alternative were pursued here, it would require considerable effort to devise new ways to take advantage of the skills and experience of older workers, and to provide the flexible work arrangements appropriate to those workers.

What would be the impact of new work roles for the elderly on the job prospects of younger workers? The best projections now are that in another twenty years the number of people reaching age 65 will be greater than the number of new workers entering the labor force, creating a possible demand for older workers.

There would, however, be certain inequities if the age of retirement were pushed back. Those who work in the service sector — as lawyers, secretaries, or government bureaucrats, for example — and are not required to perform physically demanding tasks might well work until their late 60s without any difficulty. But manual laborers, or those who work in hazardous conditions, might well be at a disadvantage if they continued working after 65. Later retirement is more appealing to professional workers, many of whom entered the labor force six or more years later than those who perform physical labor or work on assembly lines.

Opinion polls show that most Americans remain opposed to the idea of increasing the age at which people qualify for full Social Security benefits. But it is significant that there is less opposition to changing the eligibility age if that takes place twenty years from now, rather than ten.

PROBLEMS AND POSSIBILITIES

Part of the objection to any proposal that would raise the retirement age is that people want advance notice so that they can adjust their retirement plans. That was what President Reagan discovered when, in April 1981, he proposed to reduce benefits for those retiring at 62 from 80 percent to 55 percent of full benefits — effective January 1, 1982. The proposal was defeated in the Senate by a vote of 96 to 0. The Senators objected that the American public deserves advance notice, that a reduction in benefits would be an unconscionable blow to millions of Americans who are about to retire.

There is likely to be greater public support for bills such as one proposed by Democrat J. J. Pickle, chairman of the House Ways and Means Committee, which would raise the age at which full retirement benefits could be collected from 65 to 68 in gradual steps beginning in 1990 and ending in the year 2000, and over that same interval to decrease payments to those retiring at age 62 from 80 percent of full benefits to 64 percent.

But the basic conflict remains. What most Americans want is what they have grown accustomed to regarding as their due — an early and economically secure retirement. While many questions have been raised about whether we can afford as a society to continue offering so many inducements to early retirement, little has been done to reverse that trend.

New Yorker Magazine, Inc.

"Then it's moved and seconded that the compulsory retirement age be advanced to ninety-five."

"We tend to think that workers are all the same. But they're not. There are people who are on assembly lines; there are people in foundries; there are people in domestic employment, and so on in the hardest, dirtiest, most physically demanding jobs who are simply waiting for the day — with good reason — when they can retire because of the hard, grinding kind of work that they have done.

There are other people who have sedentary jobs; perhaps jobs which are more challenging — who are very unhappy if they *can't* continue working.

To treat everybody as if they were the same, as if everybody wants to continue working beyond age 65 is very unrealistic and very unfair."

Bert Seidman
Director
Social Security Department
AFL-CIO

REDESIGNING THE "THREE-LEGGED STOOL"

When the Social Security Act was passed almost fifty years ago, it was intended to ward off poverty, not to guarantee a comfortable retirement income. As Franklin D. Roosevelt said at the time, "We can never ensure 100% of the population against 100% of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and his family ... against poverty-ridden old age." At the time that Act was passed — when so many had been ravaged by the effects of the Depression and so few could count on old-age assistance — that was no idle concern.

But what has often been overlooked in the years since is the assumption that Social Security would be supplemented by other income sources. In the words of a report issued by the House Ways and Means Committee just after that historic Act was passed,

> While humanely providing for those in distress, Social Security does not proceed on the destructive theory that citizens should look to the government for everything. On the contrary, it seeks to reduce dependency, to encourage thrift and self-support.

The architects of Social Security assumed that the retirement income of elderly Americans would rest on what is often referred to as a "three-legged stool." Social Security payments were to provide one source of support. Payments from private pensions and personal savings were to provide the others. But despite warnings that citizens should not "look to the government for everything," the importance of Social Security in providing income support for the elderly has increased ever since. As recently as 1950, Social Security was the source of only about one quarter of the income of elderly Americans. Today, it provides more than half of those benefits. One quarter of the retired population depends on Social Security for 90% of its income. As many as 16% are believed to have no other source of retirement income.

"The architects of Social Security assumed that the retirement income of the elderly would rest on a 'three legged stool,' supported not only by Social Security payments but also by private pensions and personal savings."

What was originally intended as a modest government program for supplementing retirement income has become the main source of income for the elderly. Some argue that the system is now undergoing an identity crisis. Rather than trying to figure out how to raise funds to meet its obligations, they feel we should be trying to devise ways of strengthening the other two legs of that stool — personal savings and private pensions. At a time when programs for the elderly already constitute the single most expensive activity of the Federal government, some argue that we are approaching a limit to the public resources that can be committed for the elderly. If that is true, then discussions of higher payroll taxes or ways of limiting eligibility for Social Security focus on the wrong issue. There is a

Courtesy of Bettmann Archives.

President Franklin Delano Roosevelt signs the Social Security Bill in 1935 while cabinet members and Congressmen look on.

growing sentiment that what we should be doing instead is finding alternatives to government-provided support.

At the center of the debate about the design of our system for providing for the elderly are these questions: How much responsibility should government assume for the elderly? To what extent should collective responsibility be shared by employers? Should we return to the situation that existed before Social Security was passed, and assign more responsibility to individuals and families?

Let's examine whether it would be feasible to redesign our income support system so that it rests on a "three-legged stool" by looking first at where the income of the elderly currently comes from.

Today, Social Security provides by far the most important source of retirement income. Among married persons 65 or older, 56 percent rely on it for at least half of their income. Among those who are single or widowed, the figure is 72 percent.

Where does the rest of people's retirement income come from? While it has always been assumed that individuals should be directly responsible for at least part of their retirement needs, savings provide only about 17 percent of the total income of retirees. There are different

"It's a good thing that Social Security *isn't* voluntary! Some people spend every penny they've got. They have every intention of banking some of their money. But they need a new car, their kid goes to college, they need some clothes. So they don't save anything. The only way they'll take some money and set it aside is if the government tells them they *have* to, if it takes something out of their wages and sets it aside. Then, when the time comes, they dole it out. It's the only way elderly people will have enough to live on. If Social Security were voluntary, some people would starve."
Male, age 64
Truck driver

CARING FOR THE NEEDY ELDERLY

James Wilson is a 63-year-old former field hand who picked cotton and tobacco in the fields around Lane, South Carolina, for fifty years and who today lives in the same small shack in which

Photo by EPA

his sharecropper parents raised him. For most of his working life, he earned less than a dollar a day. And he never paid any Social Security taxes because, in his words, "They never came to get them. Besides, I don't think I ever made enough to pay anyway."

A few years ago, in bad health because of arthritis and a worsening heart condition, Wilson was no longer capable of putting in a day's work. For the next two years, he got by with the help of neighbors and members of his church. And then he found out that he qualified for Social Security Disability Insurance, and received benefits sufficient to cover basic expenses for food, medicine, and fire wood for a simple shack that is equipped with neither electricity nor plumbing. It is still a difficult life, but the $260 a month in disability benefits that he receives makes a difference for James Wilson. As he puts it, "Without it, I'd be a dead man for sure."

As modest as they are, the federally-provided benefits that James Wilson receives are a substantial source of assistance. In rural Williamsburg County — an economically distressed area in which half of the residents live at or below the Federally-defined poverty level — Wilson and some 3,000 others qualify for Supplemental Security Income, a program of benefits for the needy elderly paid out general tax revenues.

When the Social Security program went into effect almost fifty years ago, there were very few publicly provided "safety nets" for the elderly who were poor and needy. There was at the time no such thing as Federal aid to the low-income aged, or to the blind and disabled. No one had yet heard of Medicare or Medicaid, or food stamps. Far less was spent then on subsidized housing, or on federally-assisted welfare programs.

From the beginning, Social Security was intended to provide something more than individual pension payments. It was meant to provide *social* insurance, to provide some help for nearly all of the elderly, regardless of their income. That was what Supreme Court Justice Benjamin Cardozo had in mind when he said that "the hope behind this statute is to save men and women from the rigors of the poorhouse as well as from the haunting fear that such a lot awaits them when the journey's end is near."

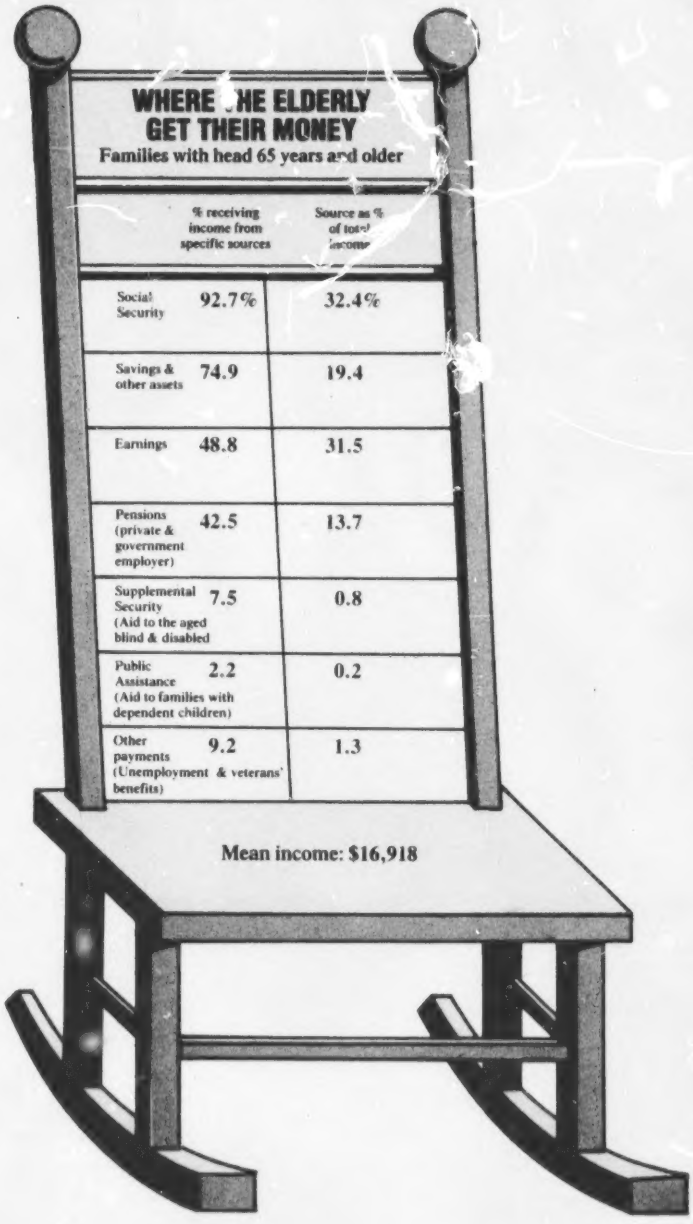
In the years since, due largely to the impact of Social Security, there has been a dramatic reduction in the portion of elderly people classified as poor. An estimated seven million beneficiaries aged 65 and over would be below the current poverty line without their Social Security benefits. Some six percent of all elderly couples, and fifteen percent of all of those who live alone, depend upon SSI to provide for the basic necessities. Thus, one of the real questions about any alternative to the present old age income system is whether it would provide for James Wilson and millions of others who are among the needy elderly.

opinions as to why savings are no higher. Some people, of course, are simply unable to set aside money. Many are convinced that since inflation erodes the value of anything they manage to save, it is not worth the trouble to do so. Others argue that so little is saved because Social Security benefits are generous. If people think their retirement needs will be met by that system, they are less inclined to save. Whatever the reason, it does not appear that saving is likely to increase much in the future: Among those currently in the labor force only a third expect savings to be a source of retirement income.

For all the hope that the founders of the Social Security system attached to private pensions as a major source of retirement income, actual income from them is disappointingly small. Although some two-thirds of all male workers and half of all female workers are currently covered by private plans, such pensions contributed only 13 percent of retirement income in 1980. Pension plans that pay liberally and dependably do exist. Employees of the Federal government, for example, typically enjoy generous old-age benefits. But only a minority of Americans are fortunate enough to be covered by such plans. In general, the dream of a comfortable retirement based on the retirement programs described in company or union brochures is very different from the reality. What disturbs many observers is that private pension systems, which are affected by many of the same pressures that threaten Social Security, will be even more vulnerable to the dual threat of a sagging economy and the swelling numbers of retirees over the next few decades.

Why is there such a gaping difference between what private pension plans promise and what they deliver? Many workers never collect because they switch jobs before working long enough to qualify for benefits. Workers need years of continuous employment to become eligible for benefits; but many people change jobs frequently, or work only intermittently, and thus qualify for only minimal benefits when they retire. Moreover, employees who work for companies that change hands, or have badly managed pension funds, or go out of business, often find that they have lost the benefits that they thought were theirs.

Millions of Americans — about half of all private-sector employees — are not currently covered by a pension plan. Some of those not currently covered are full-time workers, earning respectable salaries. But most of the people not protected by private pension plans are non-union employees in low wage or part-time jobs. Many of these jobs — typically in small businesses or marginal industries — are in firms that complain that the expense of setting up pension plans would force them out of business.


WHERE THE ELDERLY GET THEIR MONEY
Families with head 65 years and older
% receiving income from specific sources
Source as % of total income
Social Security 92.7% 32.4%
Savings & other assets 74.9 19.4
Earnings 48.8 31.5
Pensions (private & government employer) 42.5 13.7
Supplemental Security (Aid to the aged blind & disabled 7.5 0.8
Public Assistance (Aid to families with dependent children) 2.2 0.2
Other payments (Unemployment & veterans' benefits) 9.2 1.3
Mean income: $16,918

Source: Bureau of the Census (1980 figures)

"Unless we face up now to our obligations and begin the task of funding retirement benefits for all the working population, we will present our children and grandchildren with a crushing financial burden and an inescapable reduction in their standard of living as they strive to cope with the consequences of our willful neglect.

Is this the future we want for our children? If not, we have no choice but to ensure that future retirees have more than Social Security as a source of income replacement."

Michael Hanrahan
Compensation Manager
Hart, Schaftner, and Marx

"Now that I'm alone I opt for Oppenheimer."
"I worked my tail off for 45 years. That's why I opt for Oppenheimer."
Let's have disposable retirement income, not disposable retirees.
"I remember when a check was 30¢ a pound. That's why I opt for Oppenheimer."

"There are some people who, if it weren't for Social Security, couldn't save a dime. So this way they're forced to put some money aside. Social Security is a good thing because you get back what you contributed to it. It is the best program the government ever created."

Male, 58
Currently working as an auditor

As a result, pension coverage is highly inequitable. If you work for the government, such pensions are virtually guaranteed; but only about half of the people working in private companies are covered. Union workers are much more likely to be covered than non-union workers. Employees in large firms are far more likely to be covered than those working in small ones.

There is another reason why private pension benefits don't go as far as many workers hope they will. Unlike Social Security benefits and most government pensions, few private pension plans are tied to the cost of living. Since inflation began to accelerate in the early 1970s, it has cut deeply into the value of those pension benefits. If prices rise at 10 percent a year, for example, an annual pension of $10,000 is worth only $3,800 ten years later.

Because of the additional costs that would be imposed by expanded pension plans, few people predict significant increases in the portion of the labor force that is likely to benefit from them.

So, nearly fifty years after the Social Security Act was passed, what has evolved is an old-age income system quite different from what was originally envisioned. Rather than resting solidly on three legs, it rests chiefly on payments funneled through the Social Security system. Some observers point out that since there has been so little attention to other sources of retirement income, it isn't surprising that things have worked out that way. For

private savings or pensions to play a more important role in retirement, we need to establish conditions in which these potential sources of income are allowed to develop.

That is the intention of reformers who advocate three alternatives to our current system: incentives to encourage more savings, a new law that would make private pensions mandatory, and a proposal that would replace the entire Social Security system.

BUILDING A BETTER STOOL

The first set of proposals to bolster the other legs in that three-legged stool has the simple objective of increasing personal savings, on the assumption that individuals should be directly responsible for at least part of their own retirement. There would also be advantages for the nation as a whole if people saved more. Any proposal that would force people to save for retirement would also ease the problems of a society that needs more capital to stimulate the growth of the economy.

For some years, the Federal government has offered tax advantages to encourage retirement savings. Individual Retirement Accounts enable individual wage-earners to put some of their income, tax free, into the bank, to be drawn out when they retire — and then taxed as income (presumably at a lower rate) at that time. Unfortunately, it's the individual in high income brackets that is most likely to use these voluntary tax deferral programs. In one recent year, for example, while more than half of those with family income over $50,000 a year used IRA's, only three percent of those eligible for them in the $10,000-$15,000 income range did so. Lower-paid workers are often unable to save for retirement because their income scarcely takes care of day-to-day needs.

More attention has been devoted to ways of encouraging the growth of private pension plans. For years the government has encouraged the establishment of employee pensions through the use of tax breaks for companies with pension programs. But the recent slow-down in the formation of new pension plans suggests that something more than tax incentives is necessary if private pension plans are to provide a greater share of retirement income.

It was to fill that need that the President's Commission on Pension Reform made a bold recommendation in 1980 for the creation of a Mandatory Universal Pension System (MUPS). That legislation would require all employers to contribute three percent of their payroll to a pension plan. It would provide coverage for all workers over age 25 with at least one year's service. Funds paid into such plans would go with the employee if he moved to another job. But the employer was in turn to be rewarded with new tax credits

THE PERCENTAGE OF ALL WORKERS COVERED BY A PENSION PLAN, BY AGE GROUP AND INDUSTRY, 1978

Industry	25-64 years
Mining	74%
Construction	46%
Manufacturing	73%
Transportation	70%
Trade	41%
Finance	58%
Services	36%
Agriculture	19%
State and Local Government	83%
Federal Government	91%
Self-Employed Workers	15%
All Workers	56%

U.S. Bureau of the Census. Current Population Survey, May, 1979.

Photo by Ann Chwatsky.

Because their participation in the labor force is more often part-time or intermittent, women are less often entitled to private pension benefits than men.

for its pension contribution. So although MUPS was designed as a private program, it would still cost the government money, in the form of tax concessions to the employer.

That plan for a universal private pension would, however, correct the inequities that result from the current system, in which only half of the workforce is covered. It would protect workers who presently lose their pensions when they move from one employer to another. Its most direct impact would be in those segments of the labor market where pension coverage is now either trivial or nonexistent — especially in small businesses that mainly use non-union labor. It would provide pension benefits for many at the lower end of the earnings scale who do not currently enjoy them.

Providing a second tier of benefits to all workers in addition to the benefits of Social Security, it thus would go a long way toward the kind of retirement income system that the founders of Social Security had in mind.

But there are three strong objections to this proposal. One is a very practical concern that it would place a heavy financial burden on firms that do not currently offer pension plans because they cannot afford them. Already hard-pressed to meet current obligations, many such firms

might be unable to sustain their cost. A second objection is that it would cost the government considerable money. Estimates are that it would reduce tax revenues by some $15 billion. Finally, some object to any additional regulation imposed by the government. "We are quite alarmed," said Van P. Smith of the U.S. Chamber of Commerce, in testimony before the Pension Commission, "by this far-reaching suggestion for enactment of a federal law to require every employer, whether or not he is able, to maintain a pension program.... I would venture from my experience in the small business area that for you to walk into the shop of a hard-working, over-regulated American small businessman today and impose a new mandatory second-tier Social Security system would bring a public outcry that will truly amaze all of us and the political leaders for whom you now labor."

Now, two years later, this remains only a proposal. And it is a proposal to which many are firmly opposed, on the ground that it is neither necessary nor desirable for the Federal government to set up and enforce a second tier of mandatory benefits intended to achieve many of the same goals as the Social Security system itself.

A third set of proposals questions the very premise of Social Security, that a mandatory, government-run social insurance system is necessary in the first place. The belief of people who take this perspective is that the government should provide only those benefits that individuals (acting alone, or in groups) cannot provide for themselves, and that people should have as much freedom of choice as possible.

Several years ago, when some employees of state and local governments decided to exercise their option to withdraw from the Social Security system, people around the country started to ask themselves, "If *they* can opt out, why can't I?" Although polls show that if Social Security were made voluntary seven out of ten people would participate anyway, the action of the employees who left the system does raise an interesting question. If some choose not to participate in a system presumably designed for our own self-interest, why shouldn't they be allowed to drop out?

When the Social Security Act was first designed, some people advocated that those already covered by private pension plans should not have to participate in Social Security. After considerable debate, Congress decided that participation in Social Security would be required by law, that everybody would have to be taxed and protected.

Essentially, there were three arguments for this position. First, although Social Security would indeed limit the freedom of the individual, it would provide

Courtesy of Bettmann Archives.

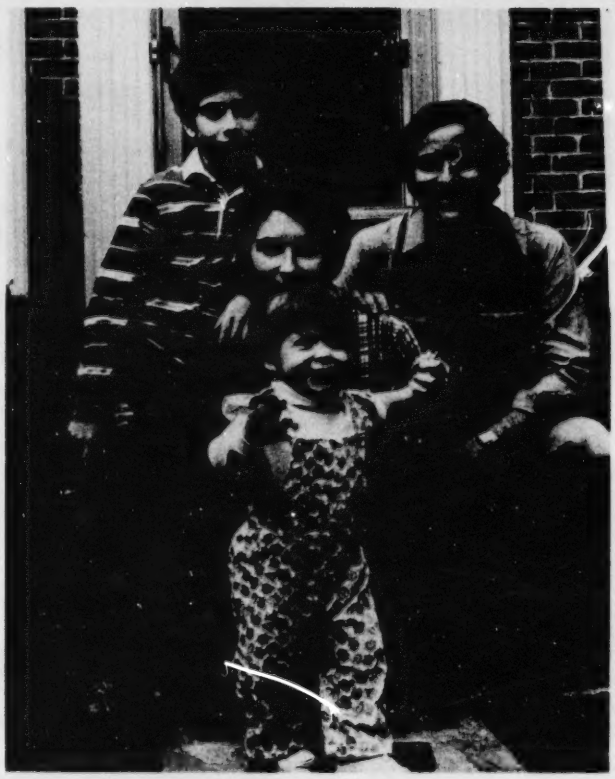


Photo by Ann Chwatsky.

When social security was a family affair, parents were motivated to have large families. Over the next few decades, however, our situation as a society will be similar to that of parents with relatively few children. More elderly Americans will have to be supported by a relatively small generation of younger workers.

greater security for the nation as a whole. If the system were voluntary, some people would fail to make provisions for their own welfare. In that case, those who prudently saved for their future retirement would likely have to shoulder the cost of providing for people who, for whatever reason, failed to make old-age income provisions in advance.

Second, if people were allowed the option of participating in Social Security, certain groups would be far more likely *not* to do so — and in their absence the whole system would be less stable. Those most likely to opt out would be individuals — such as the young, the single and the well paid — who make the fewest demands on the system. (Young people pose relatively few costs for the system because they are likely to be paying in for many years before retirement, disability, or death. Single people pose few costs because no family benefits will be drawn against their payroll contributions. And the well-paid pose relatively few costs because — in a system where benefits are weighted in favor of those who earn less — they receive a lower return on each dollar paid into the system.) Those who chose to remain in the system would probably be older, poorer, those with larger families and more dependents. To the extent that the "low-cost" individuals dropped out of the system, the burden of paying for the others would increase.

Third, since everyone benefits indirectly from the social functions that Social Security performs, it is only fair that everyone should have to pay into it. If Social Security did not exist, millions of retired and disabled people, as well as widows and orphans, would have to be supported by welfare programs paid for by all taxpayers.

Social Security was not designed as a package of benefits that people could choose to buy in exchange for paying Social Security taxes. Some argued at the time the system was first designed that such an arrangement would be like giving people the option of continuing to support the national defense effort. There are many things that are in the public interest that people do not necessarily regard as being in their immediate self-interest, but it is the obligation of government to accommodate the two.

Still, there are people who insist that we would be far better off as a nation if we disposed of Social Security and replaced it with a much simpler system to provide minimum income in retirement. They argue that the current system is inadequately funded, that benefit levels should not be so closely tied up with the political fortunes of elected leaders, and that the system causes a reduction in personal savings. These people propose to eliminate the government's role in providing for retirement income. They would end payroll taxes, which would result in pay increases to employees to the extent of their current employer's contributions to Social Security. Those currently covered by Social Security would receive bonds in an amount equivalent to the current value of what they have paid into the system. Individuals would be required to contribute a certain percentage — say ten percent — of their gross income to a recognized pension plan, or to purchase U.S. bonds with that money. At the point when individuals decided to retire, those bonds would provide an annuity.

The advantages of such a system are clear. Since the plan would replace the pay-as-you-go functions of the

MILTON FRIEDMAN ON SOCIAL SECURITY

Economist Milton Friedman is an outspoken critic of what he regards as the corrosive effects of a growing government bureaucracy. Here, in excerpts from a popular book,* Free to Choose *(written in collaboration with his wife, Rose Friedman) is his criticism of our current Social Security system, and an argument for an alternative system that would rely far more on individual initiative.

Social Security was enacted in the 1930s and has been promoted ever since through misleading labeling and deceptive advertising. A private enterprise that engaged in such labeling and advertising would doubtless be severely castigated by the Federal Trade Commission.

The impression is given that a worker's "benefits" are financed by his "contributions." The fact is that taxes collected from persons at work were used to pay benefits to persons who had retired or to their dependents and survivors. No trust fund in any meaningful sense was being accumulated.

Workers paying taxes today can derive no assurance from trust funds that they will receive benefits when they retire. Any assurance derives solely from the willingness of future taxpayers to impose taxes on themselves to pay for benefits that present taxpayers are promising themselves. This one-sided "compact between the generations," foisted on generations that cannot give their consent, is a very different thing from a "trust fund." It is more like a chain letter.

As we have gone through the literature on Social Security, we have been shocked at the arguments that have been used to defend the

program. Individuals who would not lie to their children, their friends, or their colleagues have propagated a false view of Social Security. Apparently they have regarded themselves as an elite group within society that knows what is good for other people better than those people do for themselves, an elite that has a duty and a responsibility to persuade the voters to pass laws that will be good for them, even if they have to fool the voters in order to get them to do so.

The Social Security program involves a transfer from the young to the old. To some extent such a transfer has occurred throughout history — the young supporting their parents, or other relatives, in old age. The difference between Social Security and earlier arrangements is that Social Security is compulsory and impersonal — earlier arrangements were voluntary and personal. Moral responsibility is an individual matter, not a social matter. Children helped their parents out of love or duty. They now contribute to the support of someone else's parents out of compulsion and fear. The earlier transfers strengthened the bonds of the family; the compulsory transfers weaken them.

It seems worth outlining the major elements of an alternative program, not with any expectation that it will be adopted in the near future, but in order to provide a vision of the direction in which we should be moving.

This alternative could enhance individual responsibility, end the present division of the nation into two classes — those who pay and those who are supported by public funds — reduce both government spending and the present massive bureaucracy, and at the same time assure a safety net for every person in the country, so that no one need suffer dire distress.

The program has two essential components: first, reform the present welfare system by replacing the ragbag of specific programs with a single comprehensive program of income supplements in cash — a negative income tax; second, unwind Social Security while meeting present commitments and gradually requiring people to make their own arrangements for their own retirement.

The winding down of Social Security would eliminate its present effect of discouraging employment and so would mean a larger national income currently. It would add to personal savings and lead to a higher rate of capital formation and a more rapid rate of growth of income. It would stimulate the development and expansion of private pension plans and so add to the security of many workers.

Such a comprehensive reform would do more efficiently and humanely what our present welfare system does so inefficiently and inhumanely. It would provide an assured minimum to all persons in need regardless of the reasons for their need while doing as little harm as possible to their character, their independence, or their incentive to better their own condition.

The major evil of paternalistic programs such as Social Security that have grown to such massive size is their effect on the fabric of our society. They weaken the family; reduce the incentive to work, save, and innovate; reduce the accumulation of capital; and limit our freedom. These are the fundamental standards by which they should be judged.

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current system, it would encourage the accumulation of capital for investment. Unlike the present system, there would be a clear message about who is responsible for providing for income security in old age. And the government would no longer be in the business of telling individuals when they would be eligible to retire.

The arguments against such a system are equally clear. It would provide no pooling of benefits to cushion the impact for particularly unfortunate individuals. Those who had long periods of unemployment or who became disabled might find themselves at retirement with very inadequate savings. The spouse and children of a worker who died young would receive only those small benefits accumulated over a few years.

What it comes down to is a matter of principles. Does a system which relies so heavily on individual earnings provide enough protection? As attractive as the principles of freedom of choice and minimal government intrusion are, would that system adequately provide for the needs of *all* of the elderly, not just the ones fortunate enough to be well paid and to have worked steadily?

The choice among these alternatives is not a simple matter of dollars and cents, but a more complex matter of rights and obligations, values and visions.

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WHAT CAN WE PROMISE? WHAT CAN WE AFFORD?

Now let's look back over the whole question of retirement, and what the alternatives are to our present system.

America in the 1980s is just beginning an historic transformation, a massive social upheaval that might be compared to the immigrant tide or the great internal migration from farms to cities. From now until well into the next century, this nation will be preoccupied with a population revolution. Two centuries ago, there were fewer than 200,000 people over 65 — about four percent of the population. In another twenty years, at the close of this century, there will be some 31 million over 65 — about 12 percent of the population. By the time the post-war "baby boom" gets to retirement age, there will be some 55 million Americans over 65 — and they will comprise about 18 percent of the population.

We're shifting from a society in which most of the dependent population is young and supported by their families to one in which most dependents are elderly and supported largely through organized, national arrangements. In the 1950s and 1960s, public debate focused on what facilities were needed for the young; for the foreseeable future, public policy will be preoccupied with the elderly and their needs.

The very fact that providing income security for the elderly is now largely a public responsibility indicates how much has changed over the past half century, and how influential the Social Security Act has been. Both attitudes and institutions have changed drastically since the days when the elderly were expected to take care of themselves, or be taken care of by their families.

"To the extent that the social and economic realities of the next few decades will differ from the circumstances that existed when the Social Security program went into effect, it is both appropriate and necessary to take a fresh and flexible approach to the whole subject."

Rising concern about whether the Social Security system will be able to meet its promises has prompted some basic questions about what the generations owe to each other, and what part Social Security should play in the system of collective provisions for the elderly. Some people believe that the existing system is providing the wrong benefits to the wrong people. Others argue that it responds to the social and economic realities of the 1930s — when the elderly population was relatively small, private pensions were not yet widely available, and older workers had to be eased out of the labor force to make room for younger ones. To the extent that the social and economic realities of the next few decades will differ from the circumstances that existed when the Social Security program went into effect, it is both appropriate and necessary to take a fresh and flexible approach to the whole subject.

Certainly there is a broader awareness today than there was a few years ago of the deficiencies of the Social Security system, such as the fact that it discourages personal savings, thus retarding the accumulation of

LET ME SEE IF I UNDERSTAND THIS--IN SPITE OF ALL THE WARNINGS, IN SPITE OF ALL THE EFFORTS OF OUR PRESIDENT, KNOWING FULL WELL HOW MUCH FINANCIAL TROUBLE WE'RE IN, YOU WENT RIGHT AHEAD AND GOT OLD!
SOCIAL SECURITY
TAKE A NUMBER AND HAVE A SEAT
Don Wright, The Miami News

capital necessary for economic growth. It is also criticized for imposing a straitjacket of standards about such matters as when to retire and how much the elderly can earn, regardless of individual abilities or inclinations. Perhaps the most fundamental criticism is that several decades of expanded retirement benefits have eroded a sense of personal responsibility, and encouraged the assumption that the government will provide for many of our needs in retirement.

So the fundamental question is whether we would be better off — as individuals and as a society — with a redefined and restructured system of caring for the elderly. In recent years, there has been no shortage of proposals about what might be done. Considering the complexity and variety of these proposals, it is no wonder that many people feel confused about what the real choices are, and what their effect would be.

If we set aside the technical details, both the nature of the nation's retirement dilemma and the main choices can be simply stated. That dilemma results from a mismatch between our desire to provide an adequate and reliable income for older citizens and the limited resources available to meet that commitment. The costs of that system keep rising because of higher benefits, and because

"I recognize that slowing the growth of retirement benefits requires more political sacrifice, at least in the near term, from policy-makers who all too often appear to be more concerned with re-election than with long-term structural reform. It is surely not the path of least resistance, for it requires greater effort to educate the public, business leaders and government officials. It is the difficult way, but it is the right way. Indeed, it is the only way.

Procrastinating until the financial burden forces the breach of promises will only make that dislocation worse. At that point, young and old will be pitted against each other in a fearful battle. The damage to our private and public institutions, to our society, to our heritage would be almost unimaginable."

William M. Agee
Chief Executive Officer
Bendix Corporation

TENSIONS BETWEEN YOUNG AND OLD IN AN AGING AMERICA

Within a few decades, the age mix of the entire U.S. population will be the same as it is in Florida today. Thus Florida's Broward County, where the elderly comprise more than one third of the population, provides a glimpse of what may be in store for us as a nation. In Broward County, as journalist Rasa Gustaitis reports, the social compact between the generations has begun to show cracks and strains, indicating heightened tensions.

For the moment the U.S. remains largely free of the generational hostility so evident in Broward County. But there is good reason to believe that within decades the attitudes prevalent there will have spread throughout America.

There are many reasons why the young and the old have been cast as adversaries — differences of values and lifestyles, for instance. But ultimately the struggle comes down to one major issue: money, particularly government money. Both old and young rely heavily on the government for needed social services. However, the ability of the government to provide these services in an inflationary economy has shrunk, while the elderly continue to expand in number and power. The net result is almost inevitably more for the old, less for the young. There is no way to prove categorically that a direct trade-off favoring the old at the expense of the young is taking place. Yet signs of the trend are unmistakable. The fate of certain public spending programs, the widespread discrimination against children and young people in housing, the increasingly punitive attitude toward youthful offenders in the schools and in the criminal justice system, and the political clout of the old all testify to the pervasiveness of the climate created by the growing elderly population.

The aged in Florida have bought the American promise of work followed by earned leisure. So now they shy away from social concerns with the catchphrase, "We've paid our dues." Thus, when Dade County proposed a drastic budget cut last summer, hoping thereby to avert a tax-cut initiative of disastrous proportions, the biggest slice came out of Headstart, a preschool program.

Spending for schools has also shrunk in Florida, although dollar levels have remained relatively stable. In 1978 Florida, one of the richest states, spent the smallest percentage of its wealth on education. Although Governor Robert Graham has announced that the state will increase spending by about 10 percent in 1980, he has simultaneously proposed that the percentage of property taxes going to schools, which has already dropped in the last 10 years, should be still further reduced.

As the proportion of the elderly in Florida grows, and as inflation keeps shriveling incomes, public support for education can be expected to erode even more — especially since in some areas a growing proportion of the public school children will come from minority groups. In the words of Hillsborough County School Superintendent Raymond O. Shelton, "It's going to be difficult to keep education in the limelight as a high priority social issue."

The political arena is the main battleground in the conflict between the generations. The political power of the elderly is, as one would expect, particularly evident in Florida, where almost a third of the ballots are cast by seniors. In Broward County the figures are even more startling. An aide of Representative Edward Stack, who at 69 is the oldest freshman in the House, estimated that half of the voters who turned out in his district in the fall of 1977 were 65 or over. The state, moreover, has some very determined lobbyists for the elderly. As a result, youth-oriented legislation has had a hard time finding support.

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of the fact that people are retiring at an earlier age and living longer. At the same time, the nation's straitened economic circumstances have given rise to pressures for lower taxes and reduced federal spending. In brief, we expect to receive benefits that will cost more than we are willing to pay. And the problem will become far more severe in thirty years when the baby boom generation reaches retirement age.

Essentially, there are four options in resolving the dilemma: The first is to regard current eligibility rules and

Ed Gamble, courtesy Florida Times-Union.

benefit levels that keep pace with changes in the cost of living as a commitment that must be met. If that is our decision, the problem is to figure out how to pay the high cost of those good intentions. Payroll taxes could be increased to the point where they consume substantially more than ten percent of average family income — as they do today in most European nations. But at a time when many people favor reducing taxes and federal expenditures, Congress is wary of imposing further payroll deductions for Social Security.

A second option in resolving the nation's retirement dilemma is to reduce the level of benefits. This would reverse the trend of the past few decades, which has been that Social Security provides a larger and larger percentage of the total income of the elderly. And it would redirect Social Security back to its original purpose, which was to protect the elderly against poverty, not to provide benefits sufficient to allow them to maintain a preretirement standard of living. Whenever such reductions in benefits have been proposed in recent years, they have been vigorously and successfully resisted---especially by those 36 million Americans who now receive Social Security checks.

As a practical matter, proposals to reduce the flow of benefits would meet with less resistance if they did not affect current recipients. It is possible simply to decide that at some point in the future retirees would not be fully protected against inflation, as they are now. That approach permits increases in payments, but at a reduced rate, and would result in substantial savings for the system without actually lowering anyone's benefits right now.

A third choice is to change the eligibility rules so that fewer people qualify for benefits — or qualify for fewer years. One of the simplest ways of easing the burden on the Social Security system would be to encourage more older workers to stay in the labor force, thus reversing the trend of recent years toward early retirement. Recent polls show that a 59 percent majority rejects the suggestion that the age of eligibility for full benefits be changed from 65 to 68, so this is not a popular solution. But it may turn out to be less unpopular than some alternative proposals. Perhaps the biggest obstacle here is in our attitudes and arrangements:

Expanding work options for older Americans would require far-reaching changes to remove the disincentives for older workers, to expand the availability of part-time jobs, and to make the workplace more congenial for older workers.

Compared to the first three strategies, the fourth would result in a fundamental change. That is the suggestion that Social Security be made a voluntary system. It is favored by people who believe that government should provide only those benefits that individuals (acting alone or in groups) cannot provide for themselves. Their argument is that the current system should be replaced by one that relies to a greater extent on individuals and families, and private pension plans. Any proposal that would force people to save for their retirement would also ease the problems of a society that needs more capital for economic growth.

But critics of this fourth proposal point out that it isn't likely to provide a real solution. They insist that no system would work without large numbers of participants, and that if it were voluntary the number of people who wanted to be part of such a system might not be sufficient. They also point out that one of the chief reasons for proposing a Social Security system was to protect people against their own folly. Under a voluntary system, many would make prudent plans for their retirement, but those who did not would become wards of the state — and taxpayers would eventually have to pick up the bill. A mandatory plan serves not only to protect individuals against their folly, but also to protect them against the folly of their neighbors.

When Social Security was a family affair, parents were motivated to have large families. Today, our situation is similar to the one faced by parents with relatively few children. As a result of the low birth rates of recent years, more elderly Americans will have to be supported by a relatively small generation of younger workers.

When the Social Security Act was first being debated, there was considerable concern about how family life had changed. No longer rooted in extended families that were more common in rural areas, America had become an urban, industrial nation. The passage of the Social Security Act was an acknowledgement that the nature of the family had changed, and that the elderly should be guaranteed the income assistance that they could not necessarily count on from their children. One of the fundamental questions, then, about the impact of all of these proposals is how they might affect family life. If there were more reliance on families for income assistance in old age, would that strengthen ties, reminding family members of their interdependence? Or would it create more tension and bitterness by imposing an intolerable burden?

Social Security is a political and economic bomb with a long fuse — thirty years long, to be exact. When those born in 1946 turn 65, this country will experience a dramatic change in the age and composition of the population. In the twenty-year period starting in 2011, the number of elderly persons in this nation will increase by a million a year. The choices we make over the next few years will have consequences until well into the next century. If we keep deferring the question of how to resolve the Social Security dilemma, the situation may indeed become explosive. In the words of economist Michael Boskin, "If we wait until the baby boom generation retires before we begin to deal with the tremendous long-term deficit in Social Security, we may see the greatest tax revolt and age warfare in the history of the United States."

No one anticipated that such a large crop of children would be born in the 1940s and 1950s; and few anticipated the social upheavals that resulted as that generation grew up and placed unprecedented stresses first on the educational system and then on the labor market and the housing market. Yet, if we couldn't — and didn't — anticipate either the onset of the baby boom or its immediate effect, we can anticipate the impact of that demographic tidal wave on the retirement system. And we know what its dimensions will be, for all of those who will be 60 or older in the year 2040 have already been born.

What remains is to make some choices about how to provide for the needs of that large group of elderly Americans without imposing an unacceptable burden on the rest of the society.

FOR FURTHER READING

For a comprehensive and readable description of the Social Security system, see *The Coming Revolution in Social Security* (Reston, Virginia: Reston Publishing, 1981), written by a former Chief Actuary of that system, A. Haeworth Robertson. Sociologist Edward A. Wynne provides a different perspective by examining the underlying agreements between the generations about who should be responsible for supporting the elderly. See *Social Security: A Reciprocity System Under Pressure* (Boulder, Colorado: Westview Press, 1980).

For a valuable overview on trends that affect the elderly, see a special issues book prepared by the *National Journal* on *The Economics of Aging* (Washington, D.C.: National Journal, 1978).

The 1981 White House Conference on Aging addressed many of the questions with which this booklet is concerned and issued special reports on several of them. See, for example, their reports on *Concerns of the Low-Income Elderly*, and *Saving for Retirement*, which are available from the Government Printing Office.

For a discussion of the future of private pension programs, see a statement from the Committee for Economic Development, *Reforming Retirement Policies* (New York: Committee for Economic Development, 1981).

On the political problems of redefining benefit levels for the elderly, see Robert J. Samuelson's "Benefit Programs for the Elderly — Off Limits to Federal Budget Cutters?" *National Journal*, October 3, 1981. For a summary of social security programs and benefits in other nations, see Frank B. McArdle's "Foreign Approaches to Retirement Income," *National Journal*, October 11, 1980.

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"I know of no safe depository of the ultimate powers of society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it away from them, but to inform their discretion by education."

Th Jefferson